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FISCAL IMPACT STATEMENT

LS 6289

BILL NUMBER: HB 1240

NOTE PREPARED: Nov 21, 2003

BILL AMENDED:

SUBJECT: Income Tax Deduction for Eminent Domain Awards.

FIRST AUTHOR: Rep. Cherry

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill provides an Adjusted Gross Income (AGI) Tax deduction for any portion of a settlement or judgment received in an eminent domain proceeding that is included in adjusted gross income (for individuals) or taxable income (for other taxpayers).

Effective Date: July 1, 2004.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of some individual and corporate taxpayers that receive eminent domain awards. As data regarding eminent domain awards to Indiana residents is unavailable, the revenue loss due to this bill is indeterminable. The impact of this deduction could potentially begin in FY 2006. The impact of the deduction also could potentially be diminished to the extent that: (1) a taxpayer has federally deductible losses; or (2) an award involves the sale of a taxpayer's principal residence, the gain from which would already be excluded from federal adjusted gross income for most taxpayers. Currently, an individual taxpayer may exclude up to \$250,000 (\$500,000 for joint filers) in monetary gains from the sale of his or her principal residence.

Background: The bill allows an individual or corporate taxpayer to deduct from Indiana AGI, an eminent domain award included in the taxpayer's federal adjusted gross income (federal taxable income for corporations) as a net capital gain or ordinary income. Since the deduction is effective beginning in tax year

2005, the fiscal impact would begin in FY 2006. Revenue from the AGI Tax on corporations is deposited in the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with a local option income tax.

Information Sources: Jennifer Thuma, Attorney General's Office, (317) 233-6143. *U. S. Master Tax Guide, 2003*, paragraphs 1705-1716; 1101.

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